

Australia economic update

4Q inventories and company operating profits

Company gross operating profits surged 3.9%q/q in 4Q (JPMorgan 1.2%, consensus 2.0%) after falling a revised 1.4% in 3Q (previously -2.1%). Meanwhile, business inventories rose 0.7%q/q (JPMorgan 0.4%, consensus 1.0%) after spiking 1.3% in 3Q. The stronger than expected inventories result means there is slight upside risk to our GDP growth forecast of 0.8%q/q, or 3.9%ooya, for the December quarter. The GDP print is due for release on Wednesday.

Profits in 4Q were bolstered by the construction sector and property and business services sector, where profits jumped 13.7% and 10.1%, respectively. The mining sector, which continues to battle with persistent capacity constraints and infrastructure bottlenecks, in addition to rising AUD, posted a mere 1.5% increase in profits; this follows a sharp 10.3% slump in 3Q. Profits rose in nearly all other sectors: manufacturing (+6.5%), wholesale trade (+7.0%), retail trade (+3.0%), and other selected industries (+0.2%). Only in the transport and storage sector did profits fall in 4Q, slipping 5.6%.

Looking ahead, a favourable domestic economic backdrop should continue to provide underlying support for Australian corporates, although a sharper than expected slowdown in global demand may dent profits near term. Those firms with less foreign exposure will obviously enjoy healthier revenue growth going forward. Still, firms seem to be controlling costs fairly well, with the estimate for wages and salaries increasing just 0.9% in 4Q, after rising 1.6% in 3Q. On the downside, though, firms have accumulated inventories for the past four quarters, meaning that working capital is being tied up, and that firms have possibly overestimated demand.

The details:

- Company operating profits rose 3.9% in 4Q, after falling 1.4% in 3Q.
- The largest rise in profits was reported in the construction sector (+13.7%). The only fall in profits was posted in the transport and storage sector (-5.6%).
- Inventories rose 0.4% in 4Q, slowing from 1.3% in the previous quarter.

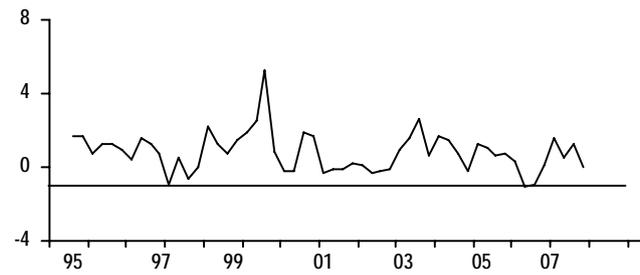
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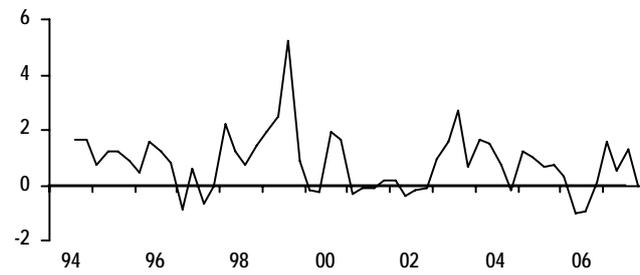
Australia: inventories

%o/a



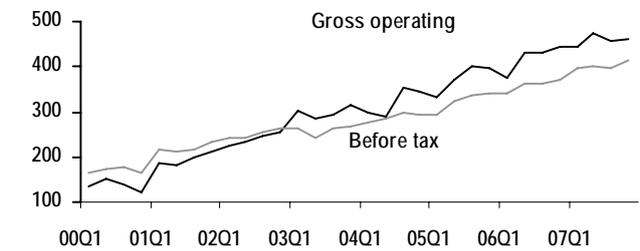
Business inventories

%q/q



Company profits

\$ million



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